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ABSTRACT

An increasing number of public research universities have turned to incentive-based budgeting systems (IBBS) as a means of managing change. It is appropriate to view IBBS as a new attempt to introduce rational systems into university administrative structures that are largely political in nature. This study examined the influence an IBBS has on planning processes in a university 10 years after its implementation. Based on a review of the evaluation of IBBS for public universities and its linkages to planning process, the authors introduce the use of organizational frames as a basis for studying the impact of IBBS systems. Interviews were conducted with 13 senior faculty administrators who had substantial experience in university governance. The findings show that IBBS constrained bureaucratic and political tendencies and improved planning, but created new ambiguities that should be addressed if IBBS is to continue to evolve. The IBBS was characterized in terms that indicated it was viewed as a "new rational" model that was not laden with the bureaucratic nuances more traditionally associated with structural descriptions of university governance. (Contains 30 references.) (Author/SLD)

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The Impact of Incentives-Based Budgeting on Planning: Understanding the Structural and Political Aspects of Budget Reform

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Understanding the Structural and Political Aspects of Budget Reform

An increasing number of public research universities have turned to incentive-based budgeting systems (IBBS) as a means of managing change. It is appropriate to view IBBS as a new attempt to introduce rational systems into university administrative structures that are largely political in nature. This paper examines the influence an IBBS has on planning processes in a public university ten years after implementation. Based on a review of the evolution of IBBS for public universities and its linkages to planning processes, the authors introduce the use of organizational frames as a basis for studying the impact of IBBS systems. Interviews were conducted with senior faculty administrators who had substantial experience in university governance. The authors found IBBS constrained bureaucratic and political tendencies and improved planning, but created new ambiguities that should be addressed if IBBS is to continue to evolve. The IBBS was characterized in terms that indicated it was viewed as a 'new rational' model that was not laden with the bureaucratic nuances more traditionally associated with structural descriptions of university governance.

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An increasing number of public research universities have turned to incentives-based budgeting systems (IBBS) as a means of managing change (Whalen, 1991; Priest, Becker, Hossler, & St. John, in press). Implementation of IBBS hastens movement toward privatization in public universities because it places a great emphasis on responding to market forces. There are also financial trends hastening privatization: the percentage of educational costs in public four-year colleges covered by state appropriations declined from about to 80% in 1980 to about 70% in 2000 (St. John, in press). IBBS also increases competitiveness, as measured by the capacity to attract external funding (Leslie, et al., in press).

There is a growing case-study literature on IBBS in public universities that concludes these systems enable these universities to adapt to the new, more competitive financial conditions (Courant & Knepp, in press; Lang, in press). In spite of this recent and growing literature, "the politics of IBBS are a topic little explored thus far in the literature, and well worth attention" (Hearn, Lewis, Kallsen, Holdsworth, & Jones, 2002, 29). In a review of the development of one incentive budgeting system, responsibility center management (RCM), John Douglas Wilson, an economist, concludes: "The desirability of RCM may ultimately involve tradeoff involving both economic and political concerns" (in press, p. 48). Therefore the political aspects of implementing an incentive budgeting model merit study.

While there is some history of research on the political nature of the implementation of planning and budgeting systems (Baldridge & Tierney, 1979; Rosenzweig, 1998), the politics of university organization have not received as much attention it should. Instead, most advocates of management reforms emphasize the

benefits with respect to improved rationality, but tend to ignore the ways new systems influence the politics of planning and budgeting. However, given the political nature of university administration, it is important to consider whether the introduction of new rational models, such as incentives-based budgeting systems, actually change the political nature of planning. Or, if politics prevail in planning and budgeting in spite of efforts to induce rationality, can these new systems survive? Will they have their intended effect of infusing more rationality to university budgeting processes? This paper explores these questions as part of this analysis of planning processes at a Midwest University with a ten year history of functioning with an IBBS. This paper describes the theoretical framework used for the study and research approach, then presents an analysis of interviews and reconsiders our research questions.

Background

It is appropriate to view incentives-based budgeting systems (IBBS) as a new attempt to introduce rational systems into university administrative structures that are largely political in nature. While there was once an espoused belief that universities functioned as communities of scholars that were self-governed through collegial means (Goodman, 1962; Keeton, 1971), the political nature of university governance is now generally acknowledged (Baldrige, 1971; Rosenzweig, 1998). Below we examine the evolution of IBBS as a new rational model that is widely advocated for public universities, review trends in planning processes in higher education, introduce the idea of frames, then describe the conceptual framework we used to examine administrators views on university governance.

IBBS as a New Rational Model

There has long been a tension in higher education between structural and bureaucratic models of governance on the one hand (Corson, 1960) and collegial models on the other (Keeton, 1971). Over time a political model emerged (Balderston, 1971). As this political image of the university evolved (Rosenzweig, 1998), there were many efforts to introduce modern management methods into the university (Balderston, 1974; Baldrige & Tierney, 1979). There is also evidence that newer methods like strategic planning and enrollment management helped colleges to adapt to the threat of declining enrollment in the 1980s (St. John, 1991, 1994). However, these innovations also introduced rational models into the previously existing organizational structures.

When responsibility-center management was introduced (Whalen, 1991), it represented a new conception of the ways rationality could be introduced into the university system. It introduced a market model of governance and management to public universities that was based on the 'each tub on its own bottom' method of governance that had been used from centuries in some elite private universities. This was a private sector higher education model being introduced into the public sector university, rather than a management model being introduced from outside of academe. The model and method were compatible with the values of academic governance. While it is possible to reduce this model to an attempt to promote efficiency, it is increasingly apparent that this method of management and governance provides incentives for faculty to generate more revenue (Leslie & Rhoades, in press). Thus, IBBS really appears to be

a new rational model that encourages faculties in public universities to be more entrepreneurial.

The argument that the political aspects of the model implementation merited study (Hearn, et al., 2002) had an influence of the conceptualization of this paper. We examined how planning has changed in a university that has had RCM for more than a decade. Planning represents the most political aspect of the old rational model of higher education, not only because it pits the academic interests of faculty against the financial interests of administrators and trustees, but also because it pits academic units against each other in the competition for scarce resources.

The Evolution of Planning Models

Historically, planning systems in higher education evolved from three traditions: financial and master planning (Halstead, 1974), academic planning (Hefferlin, 1967), and facilities planning (Fink, 1994). Through the 1970s, planning was largely growth oriented, as colleges were responding to growing demand. However, by the early 1970s, many colleges began to encounter financial problems because their plans exceeded their financial resources (Chiet, 1971, 1973). New approaches to planning and budgeting were introduced that helped colleges to integrate financial and academic planning (Balderston, 1972; Baldridge & Tierney, 1979). By the early 1980s, many colleges had developed strategic planning models that began to change the landscape of public higher education (Keller, 1983).

More recently Keller (1997) has indicated that strategic planning is inconsistent with the realities of campus decision processes. He argues universities have had to

become strategic to cope with a turbulent external environment that has been reducing enrollments, forcing financial cutbacks, and transforming pedagogy through new technology. Keller stated, "...good strategic design and behavior always expects a considerable amount of political lobbying, turf protection, and alignments against the new" (p. 159). Institutions are being forced to become more efficient, productive, and businesslike to deal with the new variety of students, the public's major concerns, their state's or region's needs, and their own runaway finances (Keller, 1997). IBBS provides public universities with structures that decentralize planning and budgeting, creating a different linkage structure between the two processes.

One widely emulated IBBS model, responsibility center budgeting (RCB), addresses the institutional strategic dilemma by linking planning and budgeting through internal market forces (Whalen 1991; Brinkman & Morgan, 1997). Midwest University implemented responsibility center budgeting based on private sector models used at well-known private universities like Harvard, Pennsylvania, and Southern California. The RCB approach forces the intersection of plans and budgets because budget responsibilities are highly decentralized to the operating units of schools or colleges within a university. Brinkman & Morgan (1997) stated RCB was envisioned to be a helpful platform in three critical tasks:

1. To maintain trust in an asymmetrical information environment, where constituencies increasingly question higher education
2. To manage the context of multiple revenue streams
3. To deal with financial stringency and the reallocation of resources

No fiscal strategy including RCB can escape planning conflicts when the unit-of-analysis is a school or college and choices need to be made between and within departments or programs.

Thus, if we examine the ways administrators in this case study view the planning process, we can potentially untangle how the new rational model influences politics and the political nature of the campus. However, it is first necessary to control for the ways administrators view the university. To provide this type of conceptual control, we examined the framing assumptions held by administrators and faculty in the university before considering their views of the planning process.

Studying Administrator's Frames

Bolman and Deal (1991) identified four general areas of theory that influence the ways most people view organizations:

- *Rational systems theorists* emphasize organizational goals, roles, and technology, and they look for ways to develop structures that best fit organizational purposes and environmental demands.
- *Human resource theorists* emphasize interdependence between people and organizations. They focus on ways to develop a better fit between people's needs, skills, and values, on the one hand, and their formal roles and relationships, on the other.
- *Political theorists* see power, conflict, and distribution of scarce resources as the central issue. They argue that organizations are like jungles in which

cooperation is achieved by managers who understand the uses of power, coalitions, bargaining, and conflict.

- *Symbolic theorists* focus on problems of meaning. They are more likely than any other theorists to find value in organizational misbehavior and to emphasize the limited ability of managers to create rational cohesion through power or rational design. (pp. 9-10)

These 'frames' have been used in a number of studies of decision processes in higher education. Some analysts argue that administrators should be encouraged to view problems through multiple frames, as a way of building a better understanding of decision problems (Bensimon, 1989; Bolman & Deal, 1991). Others argue that it more appropriate to build strong cultures (Cunningham & Cresso, 1993; Ouchi, 1981). Research that examines both sets of claims finds some support for both types of claims (Smart & St. John, 1996).

Given the wide acceptance of the frames and their linkages to long standing concerns about collegiality in higher, the frames provide an acceptable way of discerning how administrators and involved faculty members view problems through a political lens, or through bureaucratic, collegial, or symbolic lenses. The current study did not start off as a study that focused on the political nature of planning or the relationship between IBBS and political frames. A neutral question was asked about the frames. The findings were somewhat surprising to us: most senior administrators and faculty interviewed viewed the planning and budgeting processes through structural and/or political lenses. There was substantially less emphasis on collegial ways of viewing problems than we expected, given the extent to which prior research found emphasized the collegial view.

These responses caused us to ponder the relationship between structural and political images of organization.

Framing the Study of IBBS Implementation

The current study examines the status of planning processes in a large public university with a ten-year history of responsibility center management (RCM)[1], one of the more widely used incentive-based budgeting systems. Interviews were conducted with senior faculty and administrators who had substantial experience with planning and budgeting on the campus. This paper examines responses to questions about the planning process in relation to their responses to questions about the frames they use to view university planning and budgeting. The interviewees were asked about planning process, as part of a general set of questions about campus decisions processes. They were asked about their perceptions of the four frames, which were widely understood, toward the end of the interview.

The responses to questions about frames reveal how the respondents viewed the tensions between the rational goals of the budgeting system and political nature of advocacy in the university. Given that we asked questions about planning and budgeting before asking about their personal frames, or the way they viewed the university as an organization, respondents frequently used examples of planning and budgeting to explain why they held a certain frame, or how they saw the limits of the frames.

The juxtaposition of the respondents' views of the frames with themes that emerged from their responses to questions about planning provides insight into the ways

sustained use of RCM changes the political nature of planning. While the new budgeting system did little to change the political nature of planning for administrative services, it did introduce a new, market-oriented rationale in to the academic planning process, as is revealed in the analysis below.

Research Approach

This study was conducted by a group of graduate students in a graduate course on incentive-based budgeting systems. They were required to conduct a group project. Students in the course decided to collaborate on a study of the University's budgeting system as part of the course. We describe the interview method and interpretive perspectives used in this paper below.

The Interviews

The interviews were restricted to senior faculty administrators at the university who had substantial experience with the budgeting system. RCM at Midwest University treats the colleges and schools as 'responsibility centers'. All tuition dollars and a portion of grant overhead flow directly to these units. The general fund in allocated based on the share of core funding at the time RCM was implemented. Thus, the market forces influence only the redistribution of the tuition revenue. However, the responsibility centers were 'taxed' to support central administration. Each year the faculty budget committee had a substantial influence on changes in the allocation of general fund revenues and tax rates for central administration units. Tuition funding

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1 In many respects RCM is another term for RCB. However, at IU the term RCM is used to emphasize the management aspects of the system over the budgeting aspects. RCM is a market-driven budgeting process

alone represents less than half of the total education revenues, but for most of the responsibility centers, the taxes for central administration consumed most of the general fund revenues. Thus, the academic functions of the university were largely supported by tuition revenue. We selected senior and experienced members of the faculty and administration for interviews because they had an understanding of the ways these processes actually worked.

Initially we tried to interview more representatives from responsibility centers (senior faculty and deans or associate deans) than central administrators. Eight system administrators were selected to represent academic administration, financial administration, and student affairs administration. Ten senior faculty members and deans were selected from two professional schools and from departments in arts and sciences. Of the 18 individuals selected for interviews, thirteen individuals, including four system administrators, nine senior faculty members and deans, agreed to talk with us. Five individuals were not available during the period of the interviews or could not find time to schedule an interview; one had a member of her staff do the interview.

Based on their readings in the course, students collaboratively developed the interview guide and submitted the study for approval for research on human subjects. An effort was made to include questions that interested all students, since each student wrote a paper using the interview results. The interview guide asked questions about:

- The interviewees experience in the university
- Their views on and experience with the budget process,
- Their views on and experiences with the planning processes,

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that has an influence of the governance process in the university.

- Their views of the ways the budget process had influenced instruction and the use of part time personnel, and
- The frames they used to think about university governance.

The transcripts were typed and provided to the class members. The class members formed working groups to address different topics. This paper represents the first report to emerge from this collaborative process. The authors shared an interest in the issues examined and decided to collaborate on the paper.

Analysis of Interview

This analysis combines analysis of the interviews on two topics: the theoretical frames they used to view university administration and their views on the planning process. Our perspective on the two phases on the analysis and of looking across the two sets of responses is summarized below.

First, our analysis of the frames critically examines traditional conceptions of the frames, as well as which frames respondents seemed to favor. While the questions about frames asked about the frames as traditionally conceived, we learned from the interviewees that the traditional structural view did not hold up. Typically, the rational view of organization was widely discounted as being bureaucratic (Bolman and Deal, 1991). However, while many of the interviewees held a traditionally critical view of bureaucracy, they did not describe the new budgeting system using this language. Instead a new perspective on rational systems was evident in the interview responses.

Second, the analysis of responses to questions about planning focused on themes that emerged from the responses, a classical approach to qualitative research. The theme-

building process involved the reviewing the typed transcripts. The responses to questions about planning were analyzed to identify themes. Then comments were abstracted from across interviews to document the themes. Finally, representative comments were selected to illustrate themes in this paper.

Analysis

Framing Assumptions

As a first step in this analysis, we examine the frames that were described by the interviewees. Structural and political frames were most frequently cited as the dominant views of planning and budgeting processes, but most responded indicated that they used two or three frames. We examine how interviewees described their dominant frames. We explore all four frames below.

Structural/Rational Frame: The structural frame was frequently used to describe the budgeting process. However, rather than complaining about the bureaucratic nature of the process, most respondents indicated that the management system promoted a new rational model of governance.

Within the responsibility center, there was a strong emphasis on the rational aspects of governance. For example, one of the deans/associate deans argued that while political behavior was possible, the rational aspects of the system predominated. He argued:

> The opportunity to be entrepreneurial . . . can lead to . . . manipulation of courses and curricula in order to increase the number of credit hours generated, thereby providing a department with extra resources . . . Nevertheless, it seems like this type of system has an accountability to it, that prevents the department from becoming unproductive. And it does have a way of measuring departments one against the other.

Another of the deans/associate deans indicated that he held the new rational model, but lamented that decision-making was not participatory. He argued the answer to this problem could be resolved by making further structural refinements in the system:

> I think everybody would be happier if they had a better knowledge so they could plan, so they would know this translates into that. But they would have greater faith in the algorithm that's being used and that there was consistency. It seems to be a moving target or a rubber ruler.

Another of the associate deans/associate deans indicated the introduction of the new system overcame some of the limitations of the earlier incremental budgeting system:

> It has made people understand the importance of accountability and taking into consideration as many factors as possible in their decision-making, which is good. I mean, I think under the older incremental style . . . people didn't do that as much.

A central administrator with experience at both the university and departmental levels under RCM made the following observation about the role of the budget system in mitigating the influence of politics:

> There are politics and there are contests, but the formulas drive so much in RCM in this transparent way that I think it minimizes contests. It's kind of like, there's really very little room to argue about scarce resources. . . . . Those organization controls leave a lot less room to argue over resources.

When a responsibility center delegated authority to departments, it seemed to overcome some of the political aspects of budgeting. One of the deans/associate deans commented on the importance of maintaining the current RCB budgeting system:

> So any time funds get allocated centrally . . . we always get the short end of the stick. When funds are allocated by formula, as would be the case in tuition income on RCM, the income, we get our fair share. So I will always choose the formula system.

A faculty member further elaborated on the ways the budget system overcame bureaucratic tendencies: "This is not as rigid as other institutions of which I'm aware. This university allows a great degree of latitude in intellectual entrepreneurial behavior." This comment captured a common view, which argued that the budgeting system promoted flexibility.

Political Frame: Several administrators also modified by the budgeting system. Those who argued there was competition for scare resources made these arguments about budgeting processes that were immune from the market aspect of the system.

Most of the responsibility centers did not use RCM to redistribute funds once they reached the college. One interviewee with experience as a department chair and associate dean concluded that it was political system after pondering the question. He commented:

> You know, there are scarce resources, not scarce but they are limited. RCM provides a vehicle to provide rationales for the use of resources, so you'd match that. If you respond is a certain way, what is that going to do to the revenue stream for the unit? . . . Inevitably there are some winners and losers. And if one person, or one department, or one program gets an allocation . . . that takes away the available funds from somebody else.

A former dean described how he responded to the political nature this budgetary process by maintaining a sense of fairness:

> As dean, if I gave all of the new faculty searches to one or two departments, I would have heard about it. I didn't do that. And one reason I didn't do it was because it wouldn't have been fair. It wouldn't have been politically fair to do it. This wasn't the principal basis of decision, but it came into play.

He also expressed how he had worked with other deans to work through potential areas of competition, to promote fairness within the university as a whole. This dean had been among a group of leaders who had worked with the system to promote the overall culture of the university while competing for resources within a formulaic resource-allocation system. His comments illustrate that there were other principles at work.

Central administrators who presented their annual budget proposals to the faculty budget committee were also aware of the political aspects of budgeting. One administrator with responsibility to service functions indicated that the political frame

dominated when it came to budgeting for his unit, even though his personal values favored a community image:

> Probably, as I begin to make budget decisions, the political frame probably takes over, more predominance. We clearly have a number of worthy objectives coming to mind when I think about out budget issues. Many of them are in the human resources framework, emphasizing the position in the community, the community of students . . . RCM does create competing interests, or at least it recognizes different interests, and it is a resource model that encourages arguing over scarce resources.

Symbolic/Cultural Frame: While it might seem impossible to hold a cultural view of a formulaic budgeting and management system, one senior administrator who had overseen the implementation of RCM held such a view. He recognized the political tendencies in the system and the ways in which the allocation mechanism mitigate these forces. He was vitally concerned about maintaining the culture of the university and saw the budgeting system as a way of achieving that end: "But the culture, I think, really does permeate everything. The relations between any decisions I would make or the way I would interact with deans or faculty member, or anything else, is a product of culture." He indicated: "RCM has not increased the formalism of the campus in any significant way." He also argued that RCM "hasn't changed the politicization of the campus in any significant way." Then he gave insight into the stewardship aspect of managing the evolution of RCM:

> There are aspects of RCM that probably would erode the campus culture in undesirable ways, and I think that we need to be especially conscious of that. [We need to] try and be sure that we're controlling that aspect as much as we can, and do everything we can to preserve the campus culture.

Human Resources/ Community of Scholars: While the cultural view of the university was not widely espoused by faculty, one of the senior faculty members recognized that the structural and political aspects of the university now predominated, but still held an image of the culture, as he had known it earlier in this career. He observed:

> I think there was a time when IU was a smaller place when rituals and a sense that this was a community of scholars were greater. I think that has declined, however, the decline of that began well before RCM came into existence. And I think it is much more related to size of the institution than it is to the particular form of budgeting. I think when I came here we were just on the tail end of being a somewhat smaller institution and there was a little bit more sense that this was a community of scholars.

Reflecting Across Frames: The image of a 'new rationality' was introduced into the policy discourse as a consequence of implementing RCM. This shared image influenced the way senior administrators and faculty viewed the university governance process. Most respondents spoke of RCM as rational rather than bureaucratic, indicating

that the model overcame bureaucratic tendencies of the older system. Thus, we conclude that a new rational view was widely held.

The primary exceptions to the new rational view were comments directed at decision processes that were conducted outside of the budgeting system. When academic responsibility centers distributed budget resources within their units, they comment on the political nature of these decisions, unless the RCM concepts were pushed down further into these units. Further, the central administrative units were caught in a fairly traditional incremental budget structure with appeals for funding being constructed in political contexts.

While a few of the interviewees spoke in ways that emphasized symbolic or human resource frames, these were not dominant views. Rather, they were expressed value statements rather than as descriptions of the way budgeting actually worked at the university. Thus, after ten years of RCM, a new rational logic was commonly understood among senior administrators and faculty.

Perceptions of Planning and Budgeting

In the next step of the analysis, we examine the perceptions of planning and budgeting that were described by the interviewees. RCM as a form of IBBS produced several emergent themes about planning and budgeting. The most frequently cited perceptions of the planning and budgeting processes were planning became more focused while budgeting seemed little different than before RCM. First we examine the emergent planning themes of the interviewees, and then consider some of the comments by respondents about budgeting.

Planning Theme #1: Planning as a realistic process. Most of the interviewees indicated that the planning process was realistic and meaningful. They did not describe it as a meaningless exercise with plans left on the shelf. Rather planning was real because responsibility centers had to align planning and budgeting in ways that promoted financial health for the unit as a whole.

This realistic view of planning was especially strong among deans and associate deans. One proclaimed strategic planning behavior became more intentional and provided mission focus within the academic unit. He stated:

> I have been involved in strategic planning in the school before, in fact our first mission statement, when we did this exercise in the seventies, was 14 pages long. Can you imagine that? Today our mission statement is one sentence....I don't believe a top down planning model is one that can effectively work....the strategic plan needs to have buy-in from our faculty while interfacing with the university's strategic directions chart.

Another with a considerable experience expressed his views of strategic planning as follows:

> RCM requires it [academic planning] to be more realistic, less of a kind of wishing. RCM means you revisit your strategic plan annually because of the existential edge of money...it just cannot be an exercise, a plan on a shelf gathering dust.

A third dean described how planning had increased awareness and become more specific.

> Prior to RCM the academic planning was more of a wish list....with more complete data under RCM, we are more in control of our income and expenditures, more aware of costs, opportunities....planning has become a much more sophisticated process.

An assistant dean of administration assessed the planning process in this manner:

> Planning is more stressful...the planning document is more comprehensive, more strategically taking into account different budgetary implications.

While traditional incremental budgeting systems encourage academic units to spend their budgets each year, as a means of gaining more money, RCM created incentives to save. A central administrator provided the following description of planning:

> I think one of the tremendous virtues of functioning in RCM environment is that gives everyone a lot more confidence in deferred initiatives with multi-year planning since the dean controls the money—there was an incredible focus on year to year planning in the old budgeting system.

Planning Theme #2: Linking academic planning to outcomes. The budgeting process created incentives to increase enrollment, which resulted in increased tuition revenue, as well as to increase research funding, which increased revenues from overhead and buyout time. These incentives encouraged deans and associate deans to link academic planning and budgeting in direct and explicit ways. One dean commented on

the empowerment of department chairs with planning and the assessment of growth in his school.

> I think some [factors influencing the teaching of more students and more credit hours with fewer total faculty] is attributed to RCM in terms of giving the department chairs more flexibility. And in terms of being able to manage change…is that the easy thing is to take RCM and blame it for the ills and woes of the school and the university…. I would take the opposite approach and say … we are so much better off than we have ever been. We have so much more control of our destiny…we have to be entrepreneurial…. Under RCM, we had the opportunity to grow.

Another of the deans/associate deans who stated the following:

> RCM doesn't have values built into it. It's a budget management system. It's a planning tool. The people who are doing the planning bring the values. RCM review revealed a need for a faculty academic planning body to referee serious curriculum conflicts between academic units…. it was created, but I would say it was not fully successful..... RCM does add incentives to the search for external funding because you keep the money…there are very clear benefits under RCM to getting grants.

Faculty still played a direct role in academic planning, whether or not RCM was decentralized. A senior faculty member made the following observations about the rationales for curriculum changes:

> More attention has been paid to generate courses and programs students want.... but students do not drive the curriculum once in place, only the number of sections available.

Another senior faculty member with substantial administrative experience made these observations about his role:

> The biggest changes were in hiring [in academic planning under RCM] and seeing entrepreneurial opportunities to increase revenues.... but clearly, the biggest change was the degree of flexibility to engage in recruitment and hiring of talented faculty...I was hugely empowered in ways that I was not before.... Curriculum planning belongs to the faculty and not as much has changed in that arena...faculty responses to budgetary implication inquiries about [curriculum planning] is, So what?... it is not an issue that faculty address.

Central administrators recognized that deans gained a more central role in academic planning under RCM. One commented on how the discussions about academic resource planning changed:

> When we shifted to RCM, for the first time deans had real responsibility for generating income which totally changed the dynamics of the discussions.... the deans did not have to come to the chancellor to ask for money. If they had the money, they simply had to justify what they were planning to do.

Theme # 3: Ambiguities in the Budgeting Process. Most of the interviewees observed that there were tight links between budgeting and planning for academic deans, but other aspects of the system were ambiguous. The new system was empowering for

deans, with substantial delegation for planning flowing to deans as a consequence of the budgeting process. In some cases, these responsibilities were also delegated to departments, in other cases they were not. But, a number of concerns were raised about the ambiguous aspects of the budgeting system.

The dean of one academic unit made this observation about the linkage of planning and budgeting:

> Under incremental budgeting, we were not masters of our destiny. You need to recognize that a pecking order exists and [as a school] we were only going to get a certain amount [of money].... what we have not done is effectively build a budget plan around the strategic planning models... the concept of taking RCM down to the departments each with different value systems, presents enormous potential for problems. It seems to me that planning models are great and I believe in them firmly, but unless we tie budget to that, that they are not much more than a Trojan horse.... hopefully it will happen at some point.

Another dean/associate dean revealed that there were still political aspects of the budget planning:

> You still go with your hat in your hand and beg for whatever the administration would give out. The main change with RCM from the old traditional model is the budget is incremental from the dean down... The game we are playing [in the deans office] is to determine what revenues we need and then work that out with across campus, to make sure they don't steal our state appropriation increment.

A senior faculty with limited administrative experience as a chair and associate dean made these observations:

> RCM has changed in a manner the method of competition but not changed the fact that separate units of the university compete for relatively scare resources. I do not think academic planning has changed very much since we were attentive to things like class size before RCM.... Usually proposals are beaten down with budgetary arguments if credit hour production was negatively affected.... If anything it may have sharpened the arguments a bit. RCM has encouraged the pressure for sponsored research because the school gets a cut of the overhead. My sense is that RCM has not made much difference in the whole university.

While deans and associate deans wield more power in the new system, it is not always clear that academic departments have changed. As a general pattern we had more positive comments about RCM from chairs in faculty in departments where aspects of RCM had been delegated. However, in the majority of departments the governance process has changed relatively little.

The dean of a service unit also indicated that there has been little change as a consequence of RCM:

> In many respects it's changed very little. That's because of the nature of funding for non-academic units prior to RCM and after RCM. Those groups that operate more as auxiliaries... have that so-called advantage of RCM of basically controlling their human resources and carry-forward principle. There is a more decentralized decision making progress about increasing taxes for central

programs, a decentralized flow of cash.... maybe one could argue life is more difficult under RCM with less likelihood of involvement in academic planning.

There are also concerns about the role of the central administration in academic planning. A central administrator made this commented: "I think the review committee was saying that there needs to be a little more oversight of units that make poor management decisions resulting in the need for serious financial adjustments." Another central administrator pointed to another weakness in the system:

> In an RCM environment, the deans look at their taxes and say, they don't want their taxes to go up...meaning there is little interest in investing in financial aid to increase the quality of students.... In a centralized environment it would be easier to negotiate those things. There is not a master plan for academic planning other than for enrollment targets.... Academic planning is decentralized at individual schools. There has been a consistent focus on links between revenue and planning.

While the new budgeting system had many advantages, not all parts of the university benefited equally from the model. For the deans and their staffs, the new system increased authority, providing greater opportunity to plan and budget integrated ways. These changes have helped create a more student-centered university, at least if *Time Magazine*'s number one rating is evidence of this distinction (Barovick, 2001). However, department chairs, administrators in service units, and central administrators have not always benefited from this new rationality. So many questions remain.

Conclusions and Implications

This case study provides insight into the strengths and limitations of incentive based budgeting that may have implications for other public universities considering this model. A few conclusions merit consideration by those institutions, as well as by researchers with an interest in university governance. Implications are also considered.

Conclusions

First, RCM introduces a new rationality to university governance that constrains bureaucratic and political tendencies in the university. It was surprising the extent to which senior administrators and faculty used the new market rationale to describe the university governance process. Many interviewees felt that decisions had been rationalized. When the formulas work it reduced the political tendencies of the system. There was a general awareness that resources followed students and external funding, which changed the incentives of academic units, especially at the deans' level. The new rationality differs substantially from the bureaucratic image of universities. Rather than viewing structural forces as oppressive, there a general recognition that the new system increased incentives to be entrepreneurial.

Whether similar changes in perceptions of the central bureaucracy will become evident in other universities undertaking IBBS remains to be seen. Some analysts raise concerns about the political nature of these new systems (Hearn, et al., 2002). Given that the roles of both central administrators and deans change in a system using RCM, with deans experiencing increased strategic influence, there is also reason to question how

many central administrators will be supportive of this model. For example, a change in campus leadership could undermine the institutional commitment to RCM, even at IU.

Second, incentive budgeting can improve planning by making it more realistic and increasing budgetary links to outcomes. At IUB, the implementation of RCM improved the planning process in meaningful ways, especially for the responsibility centers. It added to the realism of planning with schools and colleges. In interviews, deans, associate deans, and senior faculty consistently described ways in which plans were realistic and linked to outcomes. The fact that funding followed students and research grants meant that colleges could develop realistic plans for the academic recruitment and other program related plans.

However, it was not clear that academic departments enjoyed this new certainty in planning. Most deans continued to use incremental budgeting within colleges and schools, which meant that department chairs would bring budget rationales to the governing bodies within schools when they argued for faculty lines of other financial resources. In the one school in which there had been delegation of RCM down to the departments, the senior faculty spoke about the rationality of the system and their ability to plan for and benefit from their success. However, most senior faculty interviewed indicated that planning had not substantially changed in their units.

There is reason to expect other universities would also enjoyed the benefits of decentralized planning, especially given evidence from other case studies (Lang, in press; Leslie & Rhodes, in press; Courant & Knepp, in press; Hearn et al., 2002;). However, there is no evidence in these cases that these other universities have overcome the ambiguities embedded in incentive-based budgeting systems.

Third, IBBS creates new ambiguities that must be addressed, if the model is to continue to evolve. In the IU case, there were three limitations to the RCM system as it had been implemented. First, service units in the university did not enjoy the benefits of the new system. Instead of having budget incentives, they had to rationalize their plans to faculty committees. Second, the central administration lacked a capacity to engage in strategic planning at the university level because RCM as implemented had only limited fund reallocation. Third, most academic departments continued to function in a largely political and incremental budgeting environment.

There may be ways to overcome some of the limitations. For example, value center management, another incentive based model, place more emphasis on centrally constructed plans by reallocating a larger portion of educational revenues for new initiatives. In theory, this approach could overcome one of the limitations: the lack of opportunity for central planning. However, at least one public university that had tried this approach rejected it because the central process became too political. Further, while one of the responsibility centers at this Midwest University had reduced the political nature of planning within the college by delegating some of the funding mechanisms to department, other schools and colleges were reluctant to take this step.

Thus, many questions remain about the long-term viability of incentive-based budgeting. While this market-oriented approach can overcome some of the political problems that beset large public universities, they also create new ambiguities. One approach is to unbundle the features of RCM so the colleges can choose the components that will work for them (Priest, St. John, & Tobin, in press), if the whole model becomes

too cumbersome or creates too many ambiguities. However, if this approach is taken, then greater attention should be paid to the impact of budgeting systems on governance processes in universities.

Implications

The primary implications of this study pertain to future of incentive-based budgeting systems in higher education. Most budgeting systems in higher education have had a life cycle. They are implemented to solve problems, but introducing those models results in new problems for the organizations that implement these models. Consequently they are often abandoned. After time budget innovations may be abandoned, or it may be possible to 'rescue' features of these models. For example, after policy analysis was introduced by planning, programming, and budgeting systems (PPBS), it was frequently argued the analysis should be maintained after PPBS was abandoned for being too cumbersome (Balderston, 1974). There are of course many features in RCM and similar models that should be salvaged (Priest, St. John, & Tobin, in press) if these models are abandoned.

However, given the fact that incentive-based budgeting is an approach introduced to public colleges from their private universities there is reason to rethink this pattern of abandonment. The pace of privatization has not been slowed in the past decade. Public colleges have declining state support, which means they must behave more like private entities to survive. It is far better for public college to follow the path blazed by the elite private universities than to adapt methods used in the private, for profit sector. Introducing market incentives into public universities has many positive effects,

including a clear incentive to be more student-centered, to care more about teaching. Each tub on its own bottom, the conceptual bases for RCM (Whalen, 1991), has survived well for hundreds of years in some elite private universities. Decentralized budgeting is a core value rather than a faddish model at these universities. Clearly Indiana University is a good example of this priority (Barovick, 2001), even if there are reasons to refine the model. We think public universities should continue to dialogue about incentive-based budgeting systems, with a focus on finding better ways of adapting these models to the changing conditions and priorities in the public sector.

The more general implications relate to the images that are commonly held in academic governing processes. Historically, images of bureaucracies were frequently contrasted to collegial images of governance. The bureaucratic notion of organization was the dominant and negative image of structure, while the collegial vision was the social ideal held by many academics. Now, the political model is frequently used to characterize the social aspect of decision-making in higher education. Most public universities are now too large to function as communities, at least a far as budgeting is concerned. The political image prevails because political power frequently influences priorities when consensus is not possible. What was surprising from this study was that after ten years, RCM had introduced a new rational image of the social aspect of budgeting into the culture of senior faculty and administrators at IU. They openly spoke about the ways the formulas embedded in RCM created a new rational basis for planning and budgeting. Competing for students and external grants seemed a fairer basis for internal resource allocation than did the political manipulations of elite administrators and faculty, at least this image came through as an alternative in our interviews.

This study concludes by hypothesizing a redefinition of the structural and social aspects of university governance, at least as they emerged in a university with a long history of incentive-based budgeting. The *political* image of university organization represents the dominant way budgeting is described as a social activity. In contrast the *new rational* image, widely referenced in interviews at IU, was an alternative image of the structural aspect of budgeting. However, this new rational model is more dynamic in its nature than the older structural image, which was dominated by an anti-bureaucracy mind set. Regardless of whether any particular budgeting model is used, it is important to recognize the tension between social and structural aspects of budgeting.

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